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STATE FOR WHA/BSC AND EB/IFD/OIA
STATE PASS TO USAID FOR LAC/AA
STATE PASS TO USTR FOR LYANG
NSC FOR SUE CRONIN
TREASURY FOR OSIA MAUREEN WAFER
TREASURY FOR OTA WARFIELD, VAN KOCH, MILLAR
COMMERCE FOR ITA SARAH COOK
SOUTHCOM FOR POLAD

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SUBJECT: PARAGUAY POLITICAL AND ECONOMIC UPDATE, MARCH
25-31, 2006

REF: ASUNCION 0330

11. (U) Summary:
- Russians Arrested in Paraguay
 - Partial Oil and Gas Exploration Setback
 - New IMF Program Agreed
 - Yby Yau Police Officers Put on Leave
 - ICE Conducts Course on Bulk Cash Smuggling

Russians Arrested in Paraguay

12. (U) On 3/27, in cooperation with the Israeli police representative in the region, SENAD agents arrested two Russian-Israeli citizens wanted in Israel. The two detainees are Gregory Lerner and Sergei Smolientski Arie. Lerner fled Israel several weeks ago after being convicted of cheating businessmen out of over \$1,000,000 and then laundering the money. Lerner arrived in Paraguay via Brazil on 3/17. He was traveling with a forged passport under the name Valery Bronstein. Lerner has a long criminal record in both Israel and Russia, and ties to the Russian mafia. The other detainee, Sergei Smolientski Arie, is believed to be Lerner's lieutenant in the Russian mafia and arrived in Paraguay on 3/27. Police confiscated 118,000 USD and 1,080,000 Euros from the two men. Both the GOI and the GOP suspect that they intended to start up a drug trafficking business here, smuggling cocaine to Europe, Russia, Israel, and the Middle East. The GOP does not have an extradition treaty with Israel, however, the GOP has decided to deport both individuals back to Israel. The GOP seized the assets, and will retain the money until Israel can prove it was earned illegally.

Partial Oil and Gas Exploration Setback

13. (U) Wildcat driller CDS Oil and Gas announced in February the results of a Texas-based analysis of data from the

company,s first exploratory well. Drilled to the depth of approximately 1.6 kilometers, the well confirmed the presence of oil, but with a viscosity too high for commercial exploitation at this time. In a subsequent meeting with the Ambassador, two CDS executives explained that, for them, the results were not unexpected, but were positive in that they confirmed the company,s theory about the underlying geology. Short of cash, the executives are seeking new investors to fund drilling at an area about 100 miles to the south of the first well, which CDS says it had to drill first for contractual reasons, despite the fact that they feel more confident about the potential of the second area. Nevertheless, the executives told the Ambassador that they believe the area near the first well has "more gas than Bolivia," but that exploiting gas reserves is exponentially more expensive than developing oil fields. CDS will first seek to generate cash flow from what it hopes will be small oil wells generating perhaps 300 barrels per day in the southern region. According to CDS, Petropar,s obsolete refinery would be able to handle the type and quantity of oil they hope to find. If successful in attracting sufficient new capital, CDS plans to recommence drilling in July.

New IMF Program Agreed

¶4. (U) After several months of negotiations, the GOP and IMF staff have agreed on a draft Letter of Intent to be considered first by IMF management and then the Board, perhaps in early May. The new program would be a \$93 million Stand-by Agreement treated as precautionary by the GOP that would stretch through the end of President Duarte,s term in 2008. The program reportedly intends to build on

audit work done on the state-owned enterprises (SOEs) under the last IMF program by including performance criteria linked to opening some SOEs to private sector participation. Vice Minister of Economy Jorge von Horoch told Econcouns that participation would be determined on a case-by-case basis given the varying financial states of the SOEs, but that private equity injection and management contracts would be considered. The program will also include measures to address the fact that the Central Bank is undercapitalized. The 2006 inflation target will be 5 percent, plus or minus 2.5 percent, with a maximum 7.5 percent, below 2005 inflation of 9.9 percent.

Yby Yau Police Officers Put on Leave

¶5. (U) Fidel Isasa Palacios, National Police Chief, recently ordered all of the police officers of the Yby Yau precinct in Concepcion Department, 400 miles northeast of Asuncion, to be put on administrative leave. The order came as a result of contradictions in the police reports offered by ex-commander Osvaldo Nunez and sub-official Felipe Escobar concerning the case of Enrique Galeano, a journalist who disappeared a month ago. The police officers of the nearby Azotey precinct have also been summoned before the National Police Court. National Police Sub-commander Simon Bogado Bogado has been put in charge of the renewed investigations into Galeano,s disappearance. This case has drawn much public attention as a Colorado congressman reputedly tied to drug traffickers has been accused of involvement in the journalist's disappearance(ref A)

ICE Conducts Course on Bulk Cash Smuggling

¶6. (U) During the week of March 27-30, Asuncion hosted several representatives from ICE Washington and ICE Montevideo who conducted a course in combating Bulk Cash Smuggling. 42 Paraguayans participated in the course; those in attendance included the members of the Financial Investigative Unit of SENAD, several prosecutors from the

Economic Crimes Unit and representatives of the investigative vetted units of UTE, SEPRELAD, Tax Investigations, Customs, and the Internal Affairs within the Finance Ministry. The participants were enthusiastic about the course and learned different tactics for detecting and investigating and operating against bulk cash smuggling.

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